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COMMITTEE PRINT

ACCESS AND AVAILABILITY OF CREDIT TO
THE POOR IN DEVELOPING COUNTRIES
AND THE UNITED STATES

STAFF REPORT

OF THE

SELECT COMMITTEE ON HUNGER
U.S. HOUSE OF REPRESENTATIVES



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*Effective July 13, 1987.

LETTER OF TRANSMITTAL

U.S. HOUSE OF REPRESENTATIVES,
SELECT COMMITTEE ON HUNGER,
Washington, DC, December 1987.

To Members of the Select Committee on Hunger:

I am pleased to transmit the enclosed Majority staff report, "Access and Availability of Credit to the Poor in Developing Countries and the United States."

For the past several years, the Select Committee on Hunger has been in the forefront of bringing the issue of micro-enterprise credit to the congressional agenda. First, a report was issued, two hearings were held and legislation was conceived with the assistance of Select Committee on Hunger members. Second, the exploration of domestic micro-enterprise credit was initiated by staff research, meetings, and hearing testimony, including "Appalachia: Rural Women and the Economics of Hunger" and "Self-Help Programs."

The purpose of this report is to detail the strides that have been made in the international micro-enterprise credit arena, and to provide preliminary information on domestic micro-enterprise credit issues with which the committee can further explore during the second session of the 100th Congress.

I believe the issuance of this report again allows the committee to lay the foundation for Members of Congress to further explore the possibilities of legislation in the micro-enterprise arena, and I commend the enclosed report to your attention.

Sincerely,

MICKEY LELAND,
Chairman.

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EXECUTIVE SUMMARY

Since its inception in 1984, the Select Committee on Hunger has been investigating ways to alleviate hunger and malnutrition in developing countries. Toward this goal, Hunger Committee activities have been successful in providing much needed food assistance, health care interventions and rehabilitation supplies to famine victims in sub-Saharan Africa. The Select Committee on Hunger has taken the lead in investigating numerous appropriate mechanisms to achieve long-term development objectives in Third World countries, objectives critically important in averting famine and eradicating chronic malnutrition.

On February 25, 1986, the Select Committee on Hunger, in conjunction with the House Banking Subcommittee on International Development Institutions and Finance, held a hearing on the effectiveness of entry-level micro-enterprise finance and the role of multilateral development institutions in providing such financial assistance to entry-level micro-entrepreneurs. In May 1986, the select committee issued a study entitled "Banking for the Poor: Alleviating Poverty Through Credit Assistance to the Poorest Micro-Entrepreneurs in Developing Countries," which provides the foundation for significant segments of this report. Select committee members also actively supported H.R. 4894, legislation introduced by Representative Benjamin Gilman to direct some local currencies generated by the U.S. Government's Food-for-Peace Program to support micro-enterprise credit activities. On October 21, 1986, the select committee sponsored a congressional forum on credit with Dr. Muhammad Yunus of the Grameen Bank (Bangladesh) and representatives of the Inter-American Development Bank, the African Development Foundation, the Pan-American Development Foundation and the Agency for International Development (AID).

The select committee pursued its interest in micro-enterprise credit in the 100th Congress. A hearing was held on March 12, 1987, to examine the role that nongovernmental organizations can play in providing credit and to discuss AID's micro-enterprise credit efforts. The select committee also was supportive of legislation introduced by Representative Gilman to expand funding for credit programs for the poor by both AID and the multilateral development banks.

Through these activities, the select committee found that the provision of small amounts of credit to micro-enterprises in the informal sector economy of developing countries can significantly raise the living standards of the poor, increase food security and bring about sustainable improvements in local economies. Further, select committee research and hearing testimony indicate that making credit available to entry-level micro-entrepreneurs is one way to help end the cycle of poverty and hunger among urban and rural landless poor in developing countries.

This report explores the provision of credit to the poorest of the poor; investigates the credit needs of the poor; assesses the successes of micro-enterprise credit projects and examines factors that have made them successful; and, makes recommendations for the enhancement of credit assistance to entry-level micro-entrepreneurs in developing countries.

The concept of encouraging micro-enterprise credit as a means for people to help themselves is also transferable to more developed countries, including the United States. In the United States as well as overseas, there are many among the poor who could help themselves if afforded access to credit. The select committee has researched and highlighted the efforts a number of community-based organizations located within the United States that assist low- and moderate-income people to establish small businesses. These organizations generally improve the flow of credit to micro-entrepreneurs by making risky lending more manageable for conventional financial institutions.

Because access to credit rather than the lack of available credit as experienced in underdeveloped countries is the problem in the United States, this report examines such mechanisms as community development credit unions, secondary markets for small business loans, linked deposit programs, and community loan funds to improve the flow of capital to micro-entrepreneurs. This corresponds to a recently completed study by the National Commission on Jobs and Small Businesses, cochaired by former Presidents Jimmy Carter and Gerald Ford, which reported that new mechanisms and financial instruments were urgently needed to increase the amount of capital investment in small businesses. The domestic portion of this report provides information made available through a preliminary examination of the potential of micro-enterprise activities in the United States.

Suggestions are explored for consideration to be given to the usage of transfer payment monies as seed or working capital for public assistance recipients to start micro-enterprise projects. This concept of transfer payment investment can provide public officials with a creative option to provide increased incentives for public assistance recipients to become self-sufficient.

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ACCESS AND AVAILABILITY OF CREDIT TO THE POOR IN DEVELOPING COUNTRIES AND THE UNITED STATES

I. Micro-enterprise Credit Programs in Developing Countries

INTRODUCTION

A Bangladeshi mother of two young children, Mrs. Momena Bewa, was destitute. As a landless single parent she had wandered from village to village with her children, eking out a living by finding odd jobs. She scrimped on food and lived in makeshift housing. Now, Mrs. Bewa is self-employed in a small business peddling housewares. She has income to purchase food for her children, has made a down payment on her own hut, and has taken a leadership role among a group of entry-level micro-entrepreneurs in her community. The catalyst was a \$35 loan from the Grameen Bank, a bank instituted in Bangladesh for the sole purpose of lending to poor landless people.

The preceding true story illustrates the social and economic impact small amounts of credit assistance can have on the lives of the very poor. The elimination of poverty is the most direct approach for assisting the poor to meet their basic human needs of food, shelter, and clothing. Poverty is not the result of a poor person's unwillingness to work hard or lack of skills, rather, poverty exists because the poor do not receive adequate compensation for their work.

The following testimony from Dr. Muhammad Yunus, managing director of the Grameen (Rural) Bank in Bangladesh, illustrates this cycle of endless poverty: "I went into the village [in Bangladesh] to find out why people remain poor, why they cannot overcome their poverty * * *. I met a woman in that village who was working all day to make bamboo stools. At the end of the day she made only two pennies * * *. On closer scrutiny, I found that it is because she did not have the small amount of money to buy the bamboo to make the bamboo stool, so she borrowed the money from the trader who will buy the final product, the bamboo stool, from her. As a result, the trader dictated the price, which barely equaled the cost of the raw materials [the bamboo]." ¹

Constant indebtedness to traders, informal moneylenders, loan-sharks, or relatives perpetuates the poverty of poor people in developing countries. Formal financial institutions in developing countries do not recognize the viability of income-generating enterprises owned by the poor. These formal financial institutions prevent the poor from gaining access to legal credit through extensive collateral requirements and difficult repayment schedules.

¹ Yunus, Muhammad. Statement before Select Committee on Hunger and Banking Subcommittee on International Development Institutions and Finance. U.S. House of Representatives, Washington, DC, February 1986.

Documented increases in incomes of microenterprise borrowers and successful repayment rates among poor borrowers have begun the process of penetrating the barriers of formal financial institutions which have previously excluded the poor. Emphasis must be placed on the elimination of barriers, such as collateral and literacy requirements. In addition, this report substantiates the need for bilateral and multilateral financial assistance to better target assistance to entry-level microenterprises owned by the very poor.

WHO NEEDS CREDIT?

The Informal Sector

The informal sector in developing countries is composed of numerous micro-enterprises initiated by the working poor in sprawling urban centers and rural villages of developing countries. These entry-level micro-enterprises include the hawkers and venders seen peddling their wares on street corners, the farmers and hucksters who sell locally grown foodstuffs in remote villages and towns, and the entrepreneurs who recycle used bedsprings, make brooms, sew clothing in their homes or in little shops located in alleyways and shantytowns.

According to ACCION International, a nonprofit development agency specializing in micro-enterprises, informal sector activities employ from 30 to 70 percent of the labor force in developing countries. Moreover, these enterprises can comprise 80 to 90 percent of the business activities in a typical poor neighborhood or village in a developing country. In Lagos, Nigeria (estimated population of 6 million), approximately one-half of the employment is in the informal sector; in Bombay, India, the figure is about 55 percent. It has been estimated that 78 percent of the furniture and 90 percent of the clothing in Lima, Peru, are produced in the informal sector. In San Salvador, El Salvador, it is estimated that 85 percent of poor households are engaged in "micro" informal sector businesses, which often provide 50 percent or more of household income.

The informal sector business, however, is not found only in urban areas. Rural off-farm employment provides a very important source of income for rural households. Rural off-farm enterprises employ approximately 43 percent of the rural labor force in Colombia, 28 percent in Kenya and 37 percent in Malaysia. According to a survey conducted by Michigan State University, nonfarm activities in rural areas provides a source of employment for 30 to 50 percent of the rural labor force in developing countries. Nonfarm activities in rural areas include manufacturing, services, construction, and the delivery of such items as sanitation supplies. The most important rural nonfarm activities in the majority of developing countries are clothing production, wood and metal works, and food processing. For example, 53 percent of the clothing in rural Sierra Leone was produced by the informal sector, 41 percent in Korea, 32 percent in West Nigeria, and 52 percent in rural Bangladesh.

Informal sector businesses have been defined by the number of workers employed, by its source of capital financing and by the fact that they operate outside government regulation and protection. Most informal sector businesses are family operated businesses re-

lying on family members for labor and for capital investment. Dr. Carl Liedholm, Michigan State University, defines micro-enterprises as those businesses which employ less than 50 workers and formulate a significant portion of the industrial sectors of most developing countries. (See chart 1.) However, ACCION International reports that the vast majority of micro-enterprises comprise fewer than three workers. According to the Policy Sciences Center, Inc., informal sector micro-enterprises are owned by the poor, and defined as those persons earning less than one-quarter of the national per capita income average in a developing country. Micro-enterprises while labor intensive, have very little division of labor with the average laborer relying on existing skills and low levels of technology.

For the purpose of this report, the term "micro-enterprise" reflects those income-generating activities initiated and owned by the landless urban and rural poor in developing countries. World Bank basic indicators are often used to determine the economic level of the poor in need of credit assistance. Micro-entrepreneurs in need of such credit assistance are those who have had no prior access to formalized credit and, therefore, rely on local moneylenders, loan-sharks, friends, and relatives to meet their credit needs.

CHART 1.—DISTRIBUTION OF EMPLOYMENT IN MANUFACTURING BY FIRM SIZE

[In percent]

Country and date	Per capita income 1982	Firm size (number of workers)		
		Large scale	Small scale	
		50 or more engaged	10 to 49 engaged	Below 10 engaged
India—1971	\$260	38	20	42
Tanzania—1967	280	37	7	¹ 56
Ghana—1970	360	15	1	¹ 84
Kenya—1969	390	41	10	¹ 49
Sierra Leone—1974	390	5	5	90
Indonesia—1977	580	16	7	77
Honduras—1979	660	24	8	68
Thailand—1978	790	31	11	¹ 58
Philippines—1974	820	29	5	66
Nigeria—1972	860	15	26	¹ 59
Jamaica—1978	1,330	49	16	35
Colombia—1973	1,460	35	13	52
Korea—1975	1,910	53	7	40

¹ Computed as a residual, which is the difference between employment recorded in labor force or population surveys (includes all sources) and establishment surveys.

Sources: Africa: computed from Page (1979) and Liedholm and Chuta; India: Mazumdar (1980); Indonesia: computed from Snodgrass (1979); Honduras: Stallmann (1985); Thailand: World Bank (1983); Philippines: Anderson and Khambata (1981); Jamaica: Fisseha (1982); Columbia: Berry and Pinell-Siles (1979); Korea: Ho (1980).

Carl Liedholm and Donald Mead, "Small Scale Enterprises in Developing Countries: A Review of the State of the Art," MSU International Development Papers, East Lansing, MI (forthcoming).

WOMEN

Women are disproportionately represented in the informal sector. In Peru, when domestics are excluded, 40 percent of the informal sector labor force and 61 percent of the self-employed are women. In Brazil, approximately 50 percent of the informal labor force is women. In Botswana, Tanzania, and Nepal, more than 80

percent of the total female labor force is self-employed in the informal sector.

Most micro-entrepreneurs lack formal education, as well as traditional vocational training, relying on skills learned through family apprenticeships. Women perfect their skills through the traditional domestic chores of raising children and providing food and clothing. Such daily chores are often applied toward income-generating activities including sewing, trading, and food processing.

Informal sector activities are a major source of employment for women. The smaller the enterprise the greater the percentage owned by women. Additionally, the increasing numbers of women-headed households have made income-generating activities a high priority for women. This is especially true in rural areas where male migration to urban centers has resulted in increasing numbers of women who not only are the food producers, but who also manage their farms alone.

Women have very little access to formal sector employment or commercial credit due to a variety of social and cultural biases, as well as educational and skills training disparities between men and women. Thus, women often find self-started household-based activities as their only means of earning income.

SOCIO-ECONOMIC BENEFITS: A CASE FOR CREDIT ASSISTANCE

Linkages to the Surrounding Economy

Change in income is a key indicator of the impact of micro-enterprise credit assistance programs. A recent report "Searching for Benefits" by Peter Kilby and David D'Zmura, shows that measured in terms of increased national income, capital assistance to microenterprises is one of the most successful mechanisms for international donor assistance. The success of lending to micro-enterprises is examined at both the enterprise level and in the local economy surrounding the enterprise. Backward linkages, a term used to evaluate the indirect benefits to society and the surrounding economy, may also be used to evaluate the impact of micro-enterprise credit projects.

The primary markets for products of micro-enterprises are local. Therefore, increases in the demand for local products are closely linked with increases in the income and health of the economy. This is particularly true among rural and urban low-income households as they are the predominant consumers in the "informal" sector. Improvements in the incomes of the poor generate a demand for goods and services produced within their own villages and communities, thus mutually supporting the variety of traditional businesses in their communities. This reliance creates an environment for continued economic activity for the surrounding economy.

The viability of micro-enterprises is related to the health of the economy. If the local economy is improving, or is stabilized, the success of small income-generating businesses is greatly enhanced. However, if the local economy is on a downward trend the success of a micro-enterprise is adversely affected.

According to ACCION International, micro-enterprise credit is also cost-effective. ACCION research has shown that credit gener-

ates a "multiplier effect"; that is, for every \$1 loaned, earnings of \$4 to \$5 are generated. This "multiplier effect" helps poor communities prosper. When the poor are more productive, they earn more enabling them to employ laborers to improve their homes, purchase clothing from other micro-entrepreneurs, and take care of their children's health and educational needs. All of these components work together to stimulate the local economy.

According to a study conducted by Michigan State University for the Agency for International Development, evidence has been collected which indicates that small firms in the industrial sector consistently generate more output per unit of capital than do their larger scale counterparts. The following chart illustrates the economic efficiency of micro-enterprises in terms of economic profit generated per unit of capital when all inputs including family labor and capital are valued at market costs. The chart demonstrates that micro-enterprises are not only economically efficient but are consistently more efficient than larger enterprises. (See chart 2.)

CHART 2.—CAPITAL PRODUCTIVITY AND ECONOMIC PROFITS—LARGE AND SMALL SCALE ENTERPRISES IN AFRICA AND LATIN AMERICA

Country/enterprise type	Value added—Capital services		Economic profit capital stock (percent) ^a	
	Large scale ¹	Small scale ²	Large scale	Small scale
Sierra Leone (1974):				
Clothing.....	1.7	8.3	-27	+59
Bread.....	1.7	12.4	-11	+12
Rice milling.....	1.4	57.1	-30	+80
Botswana (1982):				
Sorghum beer.....	6.2	19.6	+130	+190
Egypt (1982):				
Clothing.....	2.6	8.5	+17	+42
Metal products.....	1.5	18.5	-3	+103
Honduras (1980):				
Clothing.....	2.5	6.9	-21	+45
Furniture.....	1.9	13.9	-26	+58
Shoes.....	.9	12.5	-22	+102
Leather products.....	1.5	10.6	-21	+79
Metal products.....	1.4	12.1	-24	+23
Jamaica (1979):				
Clothing.....	1.6	10.5	-11	+86
Furniture.....	2.3	13.1	-0.4	+173
Shoes.....	2.3	17.8	-6	+247
Metal products.....	2.8	6.6	16.9	+56

¹ Large scale firms are those employing fifty or more workers.

² Small scale firms are those employing less than fifty workers.

³ In making these calculations, the following have been subtracted from value added: a. capital services valued at shadow interest rate; b. labor costs, including inputs of family workers and proprietors valued at the competitive wage in that industry. A marginal firm or industry would possess economic profits of zero.

Sources: Honduras—small scale: data collected during 1980 survey of 485 rural small scale industries conducted by CDI and MSU; large scale: computed from worksheets of 1975 Industrial Census of Honduras (firms included ranged in size from 50 to 500 employees; Jamaica—small scale: data collected during 1979 survey of 197 rural and urban firms conducted by MSU, SEDCO, and University of the West Indies; large scale: 1977 industrial survey conducted by NPA; Botswana—Steve Haggblade, "The Shabean Queen," Ph.D. dissertation, MSU, 1983; Egypt—small scale: data collected during 1982 survey of 460 manufacturing enterprises in two governorates, Fayoum and Kalyubia; large scale: GOI Investment Approvals, 1976. Sierra Leone—C. Liedholm and E. Chuta, "The Economics of Rural and Urban Small Scale Industries in Sierra Leone," African Rural Economy Paper #14, 1976.

Increases in Income

The following case studies demonstrate the profitability and change in income that result from the extension of micro-enterprise credit:

The Grameen Bank Project in Bangladesh has shown a positive impact on the income of Grameen Bank borrowers. In four years, this project has grown to support 226 local bank branches and currently operates in 3,600 villages. The project has extended over \$30 million in loans to approximately 156,000 borrowers, all rural and landless poor. The average loan size is \$60 with a repayment rate of near 99 percent. Household incomes rose about 70 percent in nominal terms over 2½ years among the Grameen Bank borrowers. This increase is compared to the annual average income increase for landless and rural poor in Bangladesh of approximately 2.6 percent.

The Rural Development Fund (RDF) of the Industrial Bank of Peru, a development bank, extended approximately 6,200 loans totaling \$43 million to about 3,000 micro-entrepreneurs. At the end of six years, a survey conducted by the Rural Development Fund showed an average sales increase of 160 percent among borrowers, from the time of the first loan and the date of the survey. Each dollar loaned was found to produce, on average, a 29-cent increase in gross income a year. Sales increased at an average of 31 percent annually, while net profits rose about 54 percent annually among microentrepreneurs. The income of RDF borrowers increased an average of 53.5 percent annually.

The World Bank's Calcutta Urban Development Program II, extended approximately 3,500 loans totaling approximately \$890,000 (Rupees 8.9 million) from 1977 to 1983. World Bank survey data show an average increase of at least 60 percent in the household income of loan recipients. Under the program, income for borrowers in the clothing businesses increased by more than 180 percent, approached 68 percent in the manufacturing and repair sectors, and reached more than 45 percent in the trade and services categories.

The Costa Rica Emprendamientos Urbanos con Garantia Solidaria/AID to Urban Businesses through a Solidarity Guarantee Program in San Jose, implemented a project to assist micro-enterprises consisting of street vendors, small store owners such as fruit vendors and small restaurants, and service industries such as shoemakers and seamstresses. Loans were dispensed to approximately 447 members of 83 solidarity groups (see case studies) of whom 63 percent were male and 37 percent were female. The loans were to be paid back in weekly installments within one year. Six months after receiving a loan, the median income of recipients had increased 96 percent (after adjustment for inflation). By the end of the first year, median income had increased 145 percent (after adjustment for inflation). All categories of loan recipients registered similar improvements in income. The following breakdown illustrates recipient reaction to the program: eight percent of the recipients said they were making the same or less money than before the loan; 48 percent of the recipients registered earnings slightly higher than before receipt of the loan; 25 percent registered earn-

ing twice as much as before receipt of the loan; and, 18 percent indicated they had more than doubled their incomes as a result of the loan.

Investment of New Earnings

Increased earnings has, in some cases, shifted household spending priorities, generated new investments and new enterprises. The Grameen Bank project shows that prior to the program, 50 percent of the recipients listed one income-generating activity. The number of the program's recipients with two income-generating activities increased by 20 percent, while the number of recipients involved in three income-generating activities increased by 24 percent. According to a study by Robert G. Blayney and Maria Otero for the U.S. Agency for International Development (U.S.A.I.D.), these findings suggest the rural poor have skills and abilities that are underutilized because of a lack of capital, and when capital is made available at least a portion thereof is used to initiate additional income-generating activities.

In addition to diversification in income-generating activities, increases in income provide for "nonproductive" needs such as health care, education, payment of previous debts, and basic needs such as clothing and food. The Self-Employed Women's Association (SEWA) program in India demonstrated that additional income earnings reduces indebtedness to local moneylenders and was beneficial to the program's recipients in the long-term. Less reliance upon moneylenders allows for more disposable income for reinvestment in current income-generating activities and for initiating new activities. The Badan Kredit Kecamatan Program (BKK) in Indonesia has yielded similar findings: BKK borrowers have contributed to the economic growth of their communities by spending more on personal consumption through their increased purchasing power. Approximately one-third of the borrowers have used their business profits and about 40 percent of the borrowers have used their savings for purchasing household supplies and making housing improvements. In addition, investment of new earnings generated from nonagricultural enterprises have also been used for family food production as a secondary economic activity among BKK borrowers.

Savings

The generation of savings among micro-enterprise borrowers is another measure of the impact of credit assistance on the incomes of the poor. The promotion of a savings component in micro-enterprise financing projects is a key element to the success of the projects. Arguments that the poor cannot save can be countered by examining credit projects which include a mandatory or voluntary savings component in the credit programs.

Hearing testimony documented substantial savings among Grameen Bank borrowers in Bangladesh of a total savings over \$3 million. Over 40 percent of the borrowers in the Badan Kredit Kecamatan Program in Indonesia have their own savings accounts. India's Self-Employed Women's Association (SEWA), whose members have had no prior experience of saving, increased the number and size of their savings from 10,000 individual accounts with a

total savings of \$100,000 in 1976 to 14,000 saving accounts totaling \$300,000 in 1981.

Loan Repayments

Micro-enterprise projects have recorded significant and impressive loan repayment rates. Testimony from Dr. Yunus of the Grameen Bank in Bangladesh, cited a constant loan repayment rate of nearly 99 percent since the bank's inception. Other micro-enterprise credit programs have yielded similar results. ACCION International, a nonprofit voluntary organization working with micro-enterprise borrowers, reports that their projects have achieved a loan payback record of 95 percent. The Badan Kredit Kecamatan Program in Indonesia reports high repayment rates of over 80 percent.

These results illustrate the willingness of the poor to utilize their skills to make profits for continued investments, their ability to generate savings and their credit worthiness with reliable loan repayments. The case studies in the appendix illustrate the types of incentives micro-enterprise credit programs have initiated to promote continued loan repayment and savings generation.

MICRO-ENTERPRISE FINANCING MECHANISMS

Informal sector enterprises face several disadvantages. In most developing countries there is virtually no access to institutional credit for the informal sector. Four types of financial mechanisms provide direct capital to microenterprise. These organizations are for-profit firms that are regulated or "formal," for-profit firms that are unregulated or "informal," relatives and friends, and not-for-profit organizations.

For-Profit Firms (Formal or Regulated)

The for-profit firms that are in the formal or regulated sector that lend to micro-enterprises are commonly found to be indigenous commercial banks. The success of these banks is due to the larger scale of lending. Micro-enterprise borrowers face several disadvantages in securing formal credit. Conventional banks regard lending to micro-enterprises as too risky and costly to administer. Likewise, rigid collateral requirements, extensive credit guarantees, and inappropriate repayment schedules for micro-enterprise borrowers make it difficult, if not impossible, for micro-enterprise borrowers to obtain credit. The cumbersome transaction costs in terms of time and effort spent to get a loan often results in deterring micro-entrepreneurs from obtaining credit. Women, often less educated and without guaranteed collateral, find themselves particularly disadvantaged because of the strict requirements of institutional lenders. Minorities and tribal groups face similar obstacles. Thus, small-scale informal enterprises owned by women and members of minorities and tribal groups may not be considered good credit risks because they lack the documentation of formally registered businesses.

For-Profit Firms (Informal)

The for-profit firms in the informal sector include loansharks or moneylenders of various types. These moneylenders can range

from friends of the borrower to large farm owners, store owners and persons whose sole business is moneylending. Unfortunately, these moneylenders often charge very high interest rates either because the costs of providing small loans and flexible pay back rates are high or they are in a position to take advantage of monopoly profits. According to a 1984 study conducted by the International Fund for Agricultural Development (IFAD) for the Grameen Bank, moneylenders in Bangladesh typically charge interest rates of 120 to 200 percent per annum. In contrast, the Grameen Bank charges an interest rate of 16 percent per annum.

Friends and Relatives

Friends and relatives were also found to be a crucial source of working capital for businesses as they developed. Relatives rarely turn down requests for small loans, because a loan to a family member is in one sense a loan to the entire family. Relatives are usually nearby, thus making loans accessible and easily arranged. According to an investigation of a women's cooperative in Kenya, conducted by Achola P. Okeyo in 1979, approximately 60 percent of the informal sector agricultural traders obtained their start-up capital from relatives. In addition, repayment of loans from relatives may not be required until the borrower is in a position to repay.

The Syndicate Bank of India, founded in 1925, was a pioneer in the field of micro-enterprise credit. Originally a private regional bank, the Syndicate Bank is now a leading nationalized bank with branches throughout India. Its customers have been farmers and small businesses in rural areas. The Syndicate Bank has been able to make lending to poorer entrepreneurs a profitable business, primarily by charging higher interest rates than most other banks. The customers are willing to pay this higher rate in part because they often have no other access to formal credit, and in part because they feel that the Syndicate Bank has the interests of microentrepreneurs in mind.

Financial Intermediaries

Financial intermediaries often serve as the link between the central financing institution which is providing the capital and micro-enterprise borrower in developing countries. Financial intermediaries include nonprofit voluntary agencies, development foundations as well as local cooperatives and associations. The following financial intermediaries are illustrative of those which carry out micro-enterprise credit programs in developing countries:

Private Agencies Collaborating Together (PACT) makes grants to indigenous organizations for micro-enterprise credit programs in Latin America, Africa, Asia, and the Caribbean;

Inter-American Foundation has established micro-enterprise credit programs in the Caribbean and Latin America with particularly successful projects in the Dominican Republic, Costa Rica, Bolivia, and Haiti;

ACCION International makes credit and management assistance available through indigenous organizations exclusively in Latin America to entry-level micro-enterprises in both urban and rural areas;

Appropriate Technology International gives grants to indigenous cooperatives and development agencies to enable them to introduce new and improved technologies by making credit, technical assistance and supplies available to micro-enterprises;

Institute for International Development, Inc., works through local branches in developing countries in Latin America, Africa, and Asia by extending credit, and to a lesser extent management assistance, to micro-enterprises, mostly in urban areas. Potential clients are recommended through local church organizations;

Overseas Educational Fund/International, working primarily in rural African and Caribbean countries, provides credit assistance to micro-enterprises and assists borrowers to generate savings and to expand their skills;

Pan American Development Foundation (PADF) has worked with business and civil leaders in Latin America and the Caribbean to create national development foundations to provide credit to micro-entrepreneurs. Since 1965, these institutions have loaned over \$120 million;

CARE has taken over the management of several micro-enterprise credit programs formerly run by Partnership of Productivity International. These programs are primarily in rural areas of African and Caribbean countries, providing credit, technical assistance, and training to micro-enterprises;

African Development Foundation, working in West, East, and Southern Africa, promotes micro-enterprise development through community development projects and indigenous organizations; and

Technoserve works in Latin America and Africa. Technoserve provides assistance to larger cooperatives which, in turn, provide credit, management assistance, and production technologies to smaller producers and rural enterprises.

Group Loans

The formation of groups is an effective mechanism for expanding credit assistance to the very poor. Benefits of group formation range from group pressure to ensure savings and loan repayment to investments in larger business ventures which individual micro-entrepreneurs may find too risky to undertake alone. The smaller the size of the group the more effective the solidarity component to ensure group cooperation, savings, and income generation.

The Grameen Bank Project in Bangladesh uses the group structure to ensure loan repayment and savings. Grameen Bank borrowers must form themselves into groups of five in order to receive loans for which no collateral is required. Before an individual in the group can obtain a loan from the Grameen Bank, the group undergoes a training session to learn the rules and procedures of the Grameen Bank. Each group has a chairman and a secretary elected by the group. The group members must pass a test at the end of their training before they may obtain a loan from the Grameen Bank. Each member of the group must attend weekly group meetings and contribute a portion of their earnings to the group savings. The group structure in the Grameen Bank Project serves a number of key purposes: it gives individuals security to take risks they may not have undertaken alone; provides a source of pressure on individuals to fulfill repayment and savings obligations; and,

provides organizational support for the advancement of economic and social goals. Additional information on the Grameen Bank group structure can be found in the appendix.

WHOLESALE OF CAPITAL

Indigenous central banks, bilateral government agencies and multilateral intergovernmental agencies all provide wholesale capital to financial organizations.

Central Banks

Central and commercial banks have provided a limited source of capital and guarantees to retailers for micro-enterprise lending. Commercial banks and financial institutions have developed more efficient lending techniques than other formal sector channels for lending in developing countries. Nevertheless, commercial banks tend to be inflexible with regard to repayment schedules and imposes rigid collateral requirements. Additionally, commercial banks tend to concentrate on large-scale loans which do not reach the small informal sector micro-entrepreneur. According to ACCION International, it has been estimated that, on the average, less than five percent of small farmers in Africa have had access to commercial credit.

Bilateral Governmental Agencies

Bilateral governmental agencies such as the U.S. Agency for International Development (AID) have provided capital to both nonprofit and for-profit commercial lenders. AID implemented a project in 1978 (Small Enterprise Approaches to Employment) for the purpose of improving AID's understanding of small enterprises. Assessments of the initial findings of this project led AID to fund the "Program for Investment in the Small Capital Enterprise Sector," referred to as the PISCES project. The purpose of PISCES was to identify the needs of micro-entrepreneurs and to outline a program for investing in small-scale enterprises. The first phase of the PISCES study assesses pilot projects in Latin America, Asia, and Africa. PISCES Phase I concluded that it is possible to effectively assist the smallest enterprises in the "informal sector." PISCES Phase II evaluates micro-enterprise projects carried out by nonprofit voluntary agencies and financial intermediaries in Asia, Latin America, and Africa.

Hearing testimony revealed that several other bilateral donors are interested in micro-enterprise finance for the poor in developing countries. The Policy Sciences Center, currently in the process of setting up an international ministry-level conference on microenterprise finance, reported that bilateral government programs initiating projects and funds for Third World micro-enterprises include those supported by Canada, the United Kingdom, Holland, France, Germany, Sweden, and Switzerland.

Intergovernmental Multilateral Agencies

Intergovernmental multilateral agencies such as the World Bank, the Inter-American Development Bank, and the International Fund for Agricultural Development have provided capital to

both for-profit commercial lenders and nonprofit financial intermediaries.

The **Inter-American Development Bank (IDB)** initiated a small projects unit in 1978 to help finance the lowest income groups in Latin America to carry out self-improvement projects to raise living standards. The IDB's program is aimed at groups of people who have little or no access to institutional credit. In 1984, the IDB financed approximately 23 small projects totaling \$8.5 million under the small projects unit. Under this program, the Bank provides financial and technical assistance to cooperatives, foundations, associations and other nonprofit community organizations whose principle purpose is to help low-income groups raise their living standards. While the IDB's special projects unit is the only multilateral development bank to establish a special fund for financing to micro-enterprises, the effort is relatively small. Out of a total loan volume of approximately \$30 billion, the IDB provided roughly \$8.5 million for small projects in 1984. This is approximately 0.03 percent of the IDB's total loan volume.

The **International Fund for Agricultural Development (IFAD)** provides credit assistance to micro-entrepreneurs principally involved in increasing food production. Participating countries contributing to IFAD include members of the Organization of Petroleum Exporting Countries (OPEC) and the Organization for Economic Cooperation and Development (OECD). One of the most successful IFAD-financed projects in the field of credit assistance to poor micro-entrepreneurs is the Grameen (Rural) Bank project in Bangladesh. In 1981, IFAD provided a credit line of \$3.4 million, matched by the Bangladesh Bank, which enabled the Grameen Bank to expand its operations to reach more borrowers. The Grameen Bank has loaned approximately \$30 million to 156,000 borrowers with support from IFAD. Further expansion funds totaling \$38 million are expected from IFAD, the Swedish International Development Agency (SIDA), and the Norwegian Agency for International Development (NORAD). The expansion funds are expected to increase the number of Grameen Bank borrowers from 156,000 to 800,000 by 1990.

The **World Bank**, through the International Bank for Reconstruction and Development (IBRD) and its "soft loan" companion, the International Development Association (IDA), have supported micro-enterprise credit, though to date that support has been limited. World Bank assistance to micro-enterprise credit projects has been provided as a component of a larger urban development program. Such programs include the small-scale enterprise credit program under the Second and Third Calcutta Urban Development Projects and the small business support component of the World Bank's Second Urban Development Project in El Salvador. The World Bank could explore a number of opportunities for increasing its support for microenterprise credit, including the provision of assistance for credit programs, the provision of guarantee funds for banks providing credit to the poor, and the advocacy of policy changes in developing countries which would enable micro-enterprises to obtain credit more easily.

ENHANCING MICRO-ENTERPRISE FINANCE

The financial crisis of many developing countries resulting from low export earnings, large public and private debt, capital flight, domestic economic policies, and inability to service external debt has become of mutual concern to developing countries and industrialized countries. Debate centers on the need for developing countries to restructure their foreign debt and domestic monetary policies. Economists explain, however, that the costs of structural adjustment measures in developing countries will remain high and the infusion of new capital to these countries will be essential. It is in this context that the impact of investments in micro-enterprises can contribute to the overall health of the economy.

Micro-entrepreneurs have proven their capacity to generate savings and their willingness to reinvest earnings into new businesses and the surrounding economies, all of which contributes to overall economic development and the cost-effectiveness of micro-enterprise credit. While interest in financing the development of entry-level micro-enterprises has been growing significantly in the past few years, only recently has the U.S. Congress begun to consider increased support for credit programs.

In the 100th Congress, legislation was proposed which called for a significantly larger commitment to micro-enterprise credit programs by the Agency for International Development (AID). While AID has been involved in funding credit programs for several years, micro-enterprise credit was not recognized as a priority of the U.S. Foreign Assistance Program. The intention of the legislation was to raise the profile of these credit programs and to direct an increased amount of AID funding for micro-enterprise credit. This initiative received substantial bipartisan support in both the House of Representatives and in the Senate.

In order to enhance micro-enterprise credit on a large scale, credit programs also need to receive the support of the multilateral development banks (MDB's). As indicated above, the Inter-American Development Bank (IDB) has initiated a small program to support credit programs for low-income groups, but little has been done by the other MBD's; micro-enterprise credit programs have not traditionally been included in the mandate of the MDB's. Legislation introduced in the House Banking Subcommittee on International Development Institutions and Finance addressed this issue. An amendment approved by the subcommittee instructed the U.S. executive director of the World Bank to propose that the Bank establish a grassroots collaboration program with nongovernmental organizations (NGO's). Under the program, the Bank would directly support NGO's involved in providing credit to micro-enterprises. The establishment of similar programs in the Asian and African Development Banks, along with an enlargement of the IDB's program, would greatly enhance micro-enterprise credit worldwide.

Several other steps can be taken to make credit more available to micro-entrepreneurs in developing countries. Financial institutions should streamline application and repayment schedules to enable entry-level micro-enterprise borrowers to gain access to formal credit. Deregulation of interest rates would reduce the transaction costs of borrowing, simplify application procedures, and

increase lenders' willingness to finance micro-enterprises. The elimination of tax and tariff regulations which are biased in favor of larger enterprises would make micro-enterprises more viable and, therefore, more attractive to lenders. Finally, the development of intermediaries to help finance entry-level micro-entrepreneurs, and in particular to assist women borrowers, is important for the expansion of micro-enterprise credit.

CHARACTERISTICS OF SUCCESSFUL MICRO-ENTERPRISE CREDIT PROGRAMS

Over the past several years, efforts have been made to identify the characteristics of successful micro-enterprise credit programs; successful programs being those which reach a large number of poor people with credit, which have a high loan repayment rate (usually over 90 percent), which do not decapitalize, and which have an increasing demand for their financial services. AID has funded studies, most notably the PISCES and ARIES projects, which have examined credit programs in an effort to discover what makes some programs successful and others not. These studies, in conjunction with research done by other practitioners in the field, have resulted in a general consensus on the basic ingredients of successful micro-enterprise finance.

Before these characteristics are examined, it is important to recognize that a listing of the essential aspects of credit programs cannot be all-inclusive or necessarily appropriate for any specific project or country context. A well-organized, urban community with existing entrepreneurial experience would require a very different credit program than one which served a rural, nomadic community. The types of businesses, traditions, administrative structures, and existing financial institutions in a region all have a large impact on the ways in which specific credit programs should be set up.

With these limitations, some common characteristics can be identified. They fall into three categories—the type of credit program established, the type of recipients being targeted, and the general economic environment.

Characteristics of Successful Credit Programs

Financial institutions which provide the poor with credit often differ markedly from traditional banks. These institutions are designed to eliminate intimidation and reduce the natural disinclination of the poor to approach larger institutions. Often the bank consists of no more than two people visiting a village, setting up a table, and transacting business with the villagers. Unlike traditional banks, they also minimize or even eliminate requirements for collateral. Many institutions substitute peer pressure in the place of collateral. Borrowers will form what are called "solidarity groups" in which one of the five members of the group receives a loan and the others are not eligible for loans themselves until the first member pays off the first loan. Not only does this seem to result in high repayment rates from borrowers, but it also eliminates as borrowers individuals that the community identifies as unlikely to repay loans. Another innovation of these credit institutions is incremental lending. The first loans are often very small

and carry a short repayment requirement. If the loan is paid off, subsequent loans can be larger and have longer pay-back periods. This practice both minimizes the risk to the lending institution and maximizes the incentive to the borrower.

However, institutions providing credit to micro-entrepreneurs resemble traditional banks in two important ways. First, successful credit programs charge the poor micro-entrepreneur interest rates at or near the market rate. This rate reflects the real cost of doing business and is essential if the credit program is to survive. If the interest rate is any lower, the program will eventually decapitalize and will need to be subsidized to continue. Programs which are subsidized do not experience the financial pressures that nonsubsidized programs do, and therefore they have lower repayment rates as they tend to be less careful in making their loans. Another aspect of these credit programs which is similar to the traditional banks is the savings component. Many institutions require savings for all of their borrowers, which provides additional capital for the institution while giving the borrowers a greater stake in the venture and a resource which they can use to make investments in their own financial futures.

In the organization of micro-enterprise credit institutions, there are several characteristics which appear to be important to the success of the program. They have a decentralized organizational structure which allows field staff the flexibility to adopt strategies appropriate for the particular situation. The guidelines for lending and for monitoring the loans are as clear and as simple as possible. The credit institutions also have well articulated and defined goals and objectives. After careful study of the specific needs of the area, the institution will focus on a particular trade or sector of the economy, at least in the beginning. Successful programs also focus on providing credit and not other basic services. In order to remain viable, they often carry a balanced portfolio of loans, from high to low risk, with loans to medium-sized enterprises as well as to micro-enterprises. Finally, since women in some countries cannot legally obtain credit, and as they make up the majority of the informal sector, special efforts must be made to ensure that women are reached. Many of the most successful credit programs in operation are aimed primarily or exclusively at women.

Characteristics of Successful Credit Recipients

Certain characteristics of micro-enterprises and their immediate surroundings appear to be particularly favorable for institutions seeking borrowers who will be able to use credit effectively. Clients who are already providing the service for which they need a loan, tend to be the most effective users of credit. If the activities will be new for the entrepreneur, they should be activities that are well-known in the region. The most successful activities are those products or services that have a direct impact on society and are in constant demand, such as garbage collection or irrigation. They cannot be in competition, however, with large-scale, capital-intensive industries.

Two other conditions are essential. The micro-entrepreneur must have access to a market for his or her goods which is not already saturated by similar producers. Also, the supplies of basic inputs

needed to provide the goods or services must be assured as they must for all businesses.

Economic Environment

No matter how well designed the credit program or how well established the recipient, no program will work if the economic environment is not favorable. As Robert G. Blaney and Maria Otero stated in a study for AID, "The policy climate in a country is of overriding importance to entrepreneurship development and enterprise promotion and expansion."²

The micro-entrepreneur would have difficulty in competing with state-run enterprises which receive preferential treatment. The economy must also have legal systems which protect private ownership and property. The import and export controls must be reasonable and not prejudiced in favor of larger industries. Also, the regulations governing the establishment and operation of a business should be simple and not overly cumbersome for micro-entrepreneurs.

Along with these policy issues, there is the need for an adequate physical infrastructure and adequate service and technical infrastructures. And, as mentioned above, the economy must provide markets for the goods as well as access to the technology and raw materials necessary to produce the goods.

Committee Recommendations

MICRO-ENTERPRISE CREDIT PROGRAMS IN DEVELOPING COUNTRIES

Based on research, meetings, and formal hearings, the committee recommends:

1. Financial institutions, bilateral and multilateral donors and central and local banks should target or find ways to expand credit assistance to micro-enterprises owned by the poor. Using basic poverty indicators to determine eligibility, financial institutions should reserve a portion of their total loan volume for financing the economic activities of poor micro-entrepreneurs. Financial intermediaries should work through indigenous organizations including nongovernmental organizations and cooperatives to better assist micro-enterprise borrowers.

2. In view of the committee's finding that lack of collateral is one of the main obstacles to micro-entrepreneurs receiving credit, financial institutions should recognize that the elimination of collateral requirements and streamlined loan application and processing wherever possible, will better enable poor micro-entrepreneurs to obtain credit. In addition, cumbersome fee requirements and formal registration for loan processing should be eliminated for such micro-enterprise lending.

3. Multilateral development institutions such as the World Bank and regional development banks such as the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank should explore ways to increase access to micro-

² Blaney, Robert G. and Maria Otero. "Small and Micro-Enterprises: Contributions to Development and Future Directions for AID's Support." U.S. Agency for International Development, Washington, DC, November 1985, p. 71.

enterprise finance, or make it a higher priority in lending to the poor in developing countries.

4. Special funds or other mechanisms including the use of guarantee programs should be established within the World Bank and regional development banks for the purpose of lending to financial intermediaries (including indigenous PVO's and cooperatives) who, in turn, will lend to entry-level micro-enterprise borrowers.

5. The Agency for International Development (AID) should place a greater emphasis on credit assistance and create an institutional priority for entry-level micro-enterprise borrowers. Micro-enterprise credit assistance should target the poorest of the poor.

6. AID should increase the funding that is made available for micro-enterprise credit by using local currencies generated through other development activities and by using development assistance and economic support funding where possible.

7. Training of bilateral donor agency staff on effective mechanisms for lending to entry-level micro-enterprise borrowers should be enhanced. Training should take place in AID's Private Enterprise Bureau and in the Bureau of Science and Technology. Micro-enterprise project training should be coordinated through the appropriate regional bureaus.

8. Twenty-five million dollars for each fiscal year 1989-92 should be appropriated for IFAD's Special Fund for sub-Saharan Africa. Congress should support and encourage IFAD to continue efforts to finance micro-enterprises.

9. Congress should continue to support micro-enterprise development activities carried out by the African Development Foundation and the Inter-American Development Foundation.

II. Micro-enterprise Credit Programs in the United States

INTRODUCTION

A blind sailor recently attempted to sail singlehandedly across the Atlantic Ocean in a small sailboat named the "Eye Opener." When asked somewhat cynically by a journalist if he expected such a journey to open his eyes, the sailor answered, "No, I only hope it will open the eyes of the seeing to the capabilities of the blind."

The above analogy applies to the goal of "opening society's eyes" to the capabilities of the poor to use their latent entrepreneurial talents to help themselves. Many low-income people have skills and abilities that they could use as the foundation for a small business of their own if afforded the opportunity. These small businesses are often referred to as micro-enterprises. The term small business is often used to describe firms of 500 or less employees; most of the firms that low-income entrepreneurs establish employ only the owner and perhaps one or two others.

Poor entrepreneurs can take advantage of a variety of micro-enterprise opportunities. Some examples of these opportunities include home-health care, word processing, messenger services, dress-making, cleaning, law, maintenance, establishing speciality shops and restaurants, opening auto repair shops, and providing sewing services. Micro-enterprise can be essentially whatever the marketplace will support. Micro-enterprises might be especially valuable in depressed and inner-city areas where small service-sector firms are historically under-developed. Additionally, because many micro-enterprise opportunities are cottage-type industries and can be undertaken at home, they may be particularly appealing to women with dependent children.

The majority of small businesses established in the United States are initially capitalized by an individual's personal savings or funds acquired from family or friends. Low-income people, however, often do not have the savings nor the opportunity to tap such financing. Additionally, many low-income entrepreneurs are unable to capitalize their talents because of the risks perceived in providing loans to them. Conventional financial lenders such as banks and savings and loans tend to avoid lending to "high-risk" entrepreneurs, especially women and or minorities.

Many potential entrepreneurs never take steps to launch their ventures because of a common perception that it is hopeless to go to the bank for credit. These discouraged entrepreneurs assume they will be refused finance and thereby never make the attempt.

Society bears the cost of lost efficiencies and production when a significant portion of the population is unable to demonstrate abilities or participate fully in the economy. Entrepreneurs are individuals or groups that have the ability to take an idea, either a new one or an improvement of an old one, assume the risks associated

with implementing that idea, and accomplish it profitably. They can be full participants of a vibrant and robust economy because they produce goods and services, frequently better, cheaper and more efficiently than large scale enterprises.

The somewhat narrow perception of who entrepreneurs are in the United States results in an inadequate flow of capital. Entrepreneurialism is distributed most democratically across class, sex, age, and racial lines. Robert E. Friedman, president of the Corporation for Enterprise Development, writes: "There are entrepreneurs everywhere—in public housing complexes as well as Silicon Valley, on Indian reservations as well as MIT, in public agencies and Fortune 500 firms as well as new startups, in Youngstown as well as Austin, among the old and the very young as well as those in their late twenties and mid-thirties, among women and [minorities] as well as white males."³

VIALE EMPLOYMENT OPTION

Policy makers should look into new and creative ways of providing employment for all people who want to work. Until fairly recently, an unemployment rate of four percent or less was considered full-employment. Economists are now talking about six percent being a more realistic figure for full-employment. This level of unemployment in today's America would mean that eight to ten million people would not be absorbed into the mainstream economy. Out of necessity, we need to expand opportunities for people to help themselves and self-employment can be a viable option for many, if the incentives and support are provided.

On the surface, helping the poor through the promotion of self-employment opportunities may be speculative, because of the historically high rate of failure among small firms.

However, the Small Business Administration reports that nine out of ten small business failures are due primarily to management deficiencies. There are a variety of both conventional and nonconventional efforts designed to assist low-income entrepreneurs by providing them access to credit and managerial assistance.

Conventional financial institutions, naturally wary of extending business credit to low-income borrowers, can be encouraged to increase such lending if some of the risk can be removed or transferred. Several of the programs highlighted in this report have improved the flow of credit to micro-entrepreneurs by making risky lending to the poor more manageable for conventional financial institutions. In particular, efforts by community and nonprofit organizations to provide collateral, supply whole or partial guarantees, and assist in the preparation of business plans makes micro-borrowers more bankable in the eyes of lenders. These same organizations, by providing loan packaging, technical and managerial assistance, and on-going monitoring at no cost to conventional lenders, can reduce some of the transaction costs associated with lending. This is most important because transaction costs that must be borne by financial institutions are almost the same for both very small and large loans. The relatively higher transaction costs for

³ Friedman, Robert, "Expanding the Vision of the Entrepreneurial Economy." *Entrepreneurial Economy*. (December/January 1987), p. 2.

smaller loans often result in lenders setting minimum loan amounts below which lending is deemed unprofitable.

A study by the National Commission on Jobs and Small Business, cochaired by former Presidents Jimmy Carter and Gerald Ford, "Making America Work Again: Jobs, Small Business and the International Challenge," suggests several mechanisms, such as revolving loan funds and secondary markets, to improve the flow of capital to low-income borrowers. Additionally, the report discusses examples of community organizations establishing banks or credit unions of their own in response to unmet credit needs.

Welfare recipients as well as the economy would benefit if potential entrepreneurs were able to better access capital for small business development. The final section of this report suggests options for both federal and state governments to encourage prospective entrepreneurs by allowing recipients to use public assistance monies as possible seed or working capital for business enterprise.

The promotion of micro-enterprise development is nothing more than an expansion of capitalism—the provision of opportunity to realize a profitable return on an investment. Banking by the poor is not charity. Though concerned with equity and human growth potential, efforts to foster self-employment build upon the implicit efficiencies of poor entrepreneurs and very small businesses which can be profitable, if managed correctly.

The failure rates for those micro-enterprises encouraged by the programs mentioned in this report are significantly lower than rates for comparable typical small businesses. These results can be partially attributed to the business-like criteria and financially prudent standards that have been the rule rather than the exception of micro-enterprise development efforts, and attributed as well to the provision of formal assistance and informal assistance, which improves the capacity of borrowers to repay loans.

Assisting potential low-income entrepreneurs to help themselves is the type of economic development, according to Robert Friedman, that " * * * transcends the equity-efficiency trade-off that has confounded those who have sought a society that is at once socially fair and economically vital. Where more traditional approaches have had to sacrifice equity in pursuit of growth, or growth in pursuit of equity, this approach offers the opportunity to achieve both simultaneously."⁴

AVAILABILITY OF CREDIT FOR THE POOR

Access to credit—the opportunity to borrow capital based upon the promise of repaying it at a later date—is the lifeblood of the capitalist system. In the United States, market forces determine who should have access to capital and how much. It is widely accepted that reliance on market mechanisms will result in the highest rate of return for the economy. The unique economic history of the United States and the sophisticated capital market structure that has developed in this country, indicate that capital markets work well. Sufficient capital has been available for eligible entities

⁴ Ibid., p. 3.

to foster economic growth and to help achieve a high per capita income.

Many prospective borrowers do not have access to capital do to the high nonpayment of acquired loans. Lending institutions consider the five "C's" of credit management to assess the likelihood that a borrower will successfully meet scheduled interest and principal payments: (1) **capacity**, the ability to repay the loan; (2) **character**, the willingness to pay the debt; (3) **capital**, the accumulated income of the borrower; (4) **collateral**, resources acceptable as security for the loan; and, (5) **conditions**, the socio-economic environment in which the venture will be located.

Many low-income potential micro-entrepreneurs likely fail several, if not all, of these risk-measuring standards. For example, the borrower is unlikely to demonstrate project success and the capacity to generate cash flows to service the loan. The borrower likely has little or no credit history to confirm his/her character concerning the willingness to repay the loan. The potential micro-entrepreneur generally has minimal capital such as that which might be available through personal savings and access to funds from family and friends. The borrower usually has limited collateral because of restricted personal assets or ability to acquire a guarantor for the loan. Finally, the borrower is likely to come from either a rural or inner-city environment, conditions which often present an adverse investment perception to lenders.

Given that the low-income borrower is frequently unsuccessful in removing the perception of high risk, traditional financial institutions are apt to reject their loan applications or charge risk premiums which price the borrower out of the market.

Also to the detriment of the low-income prospective entrepreneur, is his/her lack of market power. Borrowers with large sums of money to deposit with a financial institution, can leverage access to capital based upon the decision of funding utilization. Lending institutions desiring the use of these deposits are more congenial to large depositors. In reality the deposits and credit needs of small depositors are of lesser importance to financial institutions. Associated opportunity costs for the financial institution, in such cases, are negligible.

MICRO-ENTERPRISE MODELS

Due to the operation of the credit system, many would-be micro-entrepreneurs often cannot tap conventional sources of finance because of factors beyond their control: the workings of the market; perceived risk; location; and, their small size. However, concerned citizens, community groups and public officials—often working together—have developed a variety of programs and mechanisms designed to improve the flow of micro-enterprise credit available to the poor.

The programs examined below provide innovative approaches—which range from ameliorating perceived risk to creating loan funds—for improving access to capital for many who have traditionally been denied the opportunity to tap conventional capital sources.

The Self-Help Association for a Regional Economy

The Self-Help Association for a Regional Economy (SHARE), located in Great Barrington, MA, is a nonprofit organization which helps promote small business ventures that produce locally sought goods and services. SHARE specifically targets assistance to individuals attempting to establish small businesses, but who have been unable to obtain conventional bank financing due to the lack of established collateral or previous credit history.

SHARE helps to make prospective entrepreneurs bankable by providing the necessary collateral to the bank. Organization members deposit their savings in a joint account from which funds are earmarked for loans to small businesses. These accounts are then pledged as collateral to secure loans approved by SHARE and the bank. SHARE's eventual goal is to help the business achieve stability, establish a credit history and graduate to the bank's conventional lending window.

The organization itself, has no financial assets. Instead, it essentially serves as an adjunct loan department of the bank. Through its loan committee, SHARE makes all loan approval decisions.

The primary market function performed by SHARE is to assume the burden of risk from the bank and place it squarely with its members. SHARE members often provide advice and technical assistance necessary to help the entrepreneur launch and maintain a business, and frequently to create a market for the business and promote its services.

Thus far, SHARE has sponsored 12 loans, all of which are performing well. One of the most positive aspects of the SHARE concept is its simplicity and replicability. The Job Development Authority (JDA) of New York is presently attempting to establish a program through which matching funds, in the form of seed capital, would be provided to communities trying to implement the SHARE concept.

The Small Business Development System

The Small Business Development System (SBDS) was created by the Economics Department of the Bank of Boston and implemented by the Boston based Council of Economic Action, Inc. Through SBDS, low-income persons receive assistance in identifying underserved or undersupplied markets in the community and support in establishing small businesses which can respond to these needs. Additional elements of support include small business management training; aid in accessing financial institutions; and, ongoing systematic guidance to small business enterprises.

Upon completion of training courses which cover basic planning, finance, personnel management, and marketing, prospective business owners prepare a business plan that can be submitted to a lending institution for loan consideration.

The president of the council, who also serves as the senior vice president of the Bank of Boston, estimates that 70 percent of the individuals enrolled in the training course drop out during the first session. He notes, "This is what bankers say they really like, be-

cause it discourages people who aren't adequately prepared for the complexities of running a business."⁵

Since 1984, 31 businesses have been started by the council; 29 of these remain in operation.⁶ Similar programs based on SBDS are now operating in a dozen other cities and have tapped a variety of funding sources, including Community Development Block Grants, the Economic Development Administration, and the Office of Community Planning and Development of the Department of Housing and Urban Development.

The Women's Economic Development Corporation

The Women's Economic Development Corporation (WEDCO), based in Minneapolis/St. Paul, MN, is a private nonprofit organization which provides comprehensive services to women who are engaged in initiating or operating their own businesses. Services are primarily targeted to those who are unemployed or underemployed. The organization charges fees for its services on a sliding scale indexed to client income.

WEDCO works with each of its clients to provide a range of individual consulting, group training, finance, information, and referral services. WEDCO also organizes workgroups that bring together four to six women for intensive two-month training sessions in marketing, recordkeeping, and personal effectiveness.

Depending upon a client's needs, WEDCO offers financing through conventional lenders or through its own loan fund and assists, to a lesser degree, small businesses in need of venture capital, and government-sponsored loans.

The First Bank System in Minneapolis/St. Paul has assigned loan officers from its consumer lending division to work with WEDCO staff and clients to help secure conventional financing for women starting businesses. These officers negotiate the collateral and equity requirements for each loan. For clients who have first been refused funds from conventional sources, WEDCO lends from its own in-house revolving loan fund. WEDCO promotes the idea of "stepping loans"—small, short-term loans that assist a business establish a credit history and move toward qualification for conventional financing. WEDCO's working relationship with the First Bank System resulted in loans ranging from \$1,000 to \$60,000, to 78 businesses during WEDCO's first two years. Presently, all but one of these loans are current. WEDCO's in-house seed fund extended 61 loans ranging from \$300 to \$10,000 during 1985 and 1986; all but three loans are presently current.

During its two years of operation, WEDCO has helped 280 women start businesses and assisted another 500 in maintaining their businesses. On average, three full-time and five part-time jobs were created per ongoing business assisted in 1985.

In addition to local program operations, WEDCO is promoting replication of its model in other communities, through consulting contracts in such cities as Flint, MI and Chicago, IL.

⁵ "Urban Entrepreneurs Tutored In How to Read Market Cues." *The Wall Street Journal*. Aug. 10, 1987, sec. 2, p. 29.

⁶ *Ibid.*

The Women's Self-Employment Project

The Women's Self-Employment Project (WSEP), based in the city of Chicago, offers financial and technical assistance in developing micro-business opportunities to unemployed and underemployed low- and moderate-income women. WSEP's training program seeks to develop traits and characteristics required to be successfully self-employed, and basic skills and knowledge required to start and operate a business. WSEP also helps participants develop a complete personal plan of action for business start-up and operation and the ability to secure financing.

The fee for participation in this program is based on the client's ability to pay. In order to encourage savings and the accumulation of capital, all participants are required to establish a joint savings account with WSEP. The organization operates a revolving loan fund for those unable to tap conventional finance sources. Loans are short-term and range from \$500 to \$5,000; additional loans are contingent upon their payback.

The eventual financing goal of the program is to enable women to attain credit in their own right from traditional sources by providing borrowers with improved equity and a credit history.

WSEP organizes potential borrowers into "borrower circles" of five women led by WSEP staff members. Individual loans are based on the borrower's request, the approval of the circle members, and a reasonable projection that there will be sufficient cash flows to repay the loan. Circle members do not cosign each other's loans but depend on each other for a good collective credit history. Circle members self-select the first two applicant's business ideas. After the first two borrowers have demonstrated their ability to repay loans by making a specified series of on-time payments, additional members of the circle will be able to apply for loans. Peer groups will continue after business start-up to provide ongoing support, problem-solving assistance and training. In addition to peer support, WSEP seeks to provide role models/mentors by involving successful businesswomen in the program.

The Center for Southeast Asian Refugee Resettlement

The Center for Southeast Asian Refugee Resettlement (CSEARR), based in the San Francisco Bay area, was founded in 1975 by refugees from Vietnam, Laos and Cambodia. The center originally offered programs that were limited to providing basic survival and resettlement services. CSEARR presently provides a broad range of community services that includes an economic self-sufficiency component.

Launched in 1982, CSEARR's business development unit provides technical and management assistance to facilitate and expedite the expansion of the refugee business sector. Program administrators, however, found their efforts to encourage small business development were hampered by the unwillingness of local institutions to underwrite their client's ventures. It was their experience that local lenders had little interest in business loans under \$50,000.

Thus, CSEARR sought to establish its own source of financing. The Ford Foundation's program-related investment program awarded CSEARR a grant of \$50,000 in 1984 to establish a revolv-

ing loan fund to be used for small business development. The loan committee established by CSEARR mixes individuals from banking and financial circles with community social workers. Further contributing to the diversity of the committee is the representation of members from both the public and private sector.

The loan committee defines collateral in a manner which allows considerable flexibility. Where most traditional financial institutions are unwilling to consider loan requests unless real estate can be pledged as collateral, CSEARR will consider as collateral, tangible project assets (machinery and equipment, real property, accounts receivable, and inventory), or personal assets (real property, savings accounts, automobiles, and life insurance). As a standard procedure, loan recipients are asked to provide their personal guarantee.

The approved loan requests averaged \$10,000 with CSEARR and the credit union each providing 50 percent of the loan amount.

Interest charged on loans is fixed at 2.5 percent above the prime rate. Repayment periods range from four to five years with no penalty for early repayment.

This fledgling program has extended a total of nine loans, two of these loans leveraged additional funds from the San Francisco Mayor's Office of Housing and Economic Development. CSEARR staff attribute the program's 100 percent repayment rate for their "marginal" customers (participants who would not have qualified for a regular bank loan) to the integration of technical assistance with loan moneys. Staff provide continuous technical and management assistance to each loan recipient; on-going monitoring of each loan, including regular site visits and review of quarterly financial statements; and, preparation and implementation of corrective technical assistance packages for problem loans.

The Small Business Venture Program

The Small Business Venture Program, operated by the Wamy Community Action Agency (Wamy) in Boone, NC, was founded on the concept that antipoverty agencies should provide support to help their clients achieve self-sufficiency, Wamy serves four rural, mountainous counties of North Carolina.

In 1982, Wamy submitted a grant application to North Carolina's Department of Natural Resources and Community Development for \$150,000 in community services block grant (CSBG) moneys to provide a guarantee fund for loans to businesses started by its clients. The organization arranged to deposit these funds in escrow with a local savings and loan as a 100-percent guarantee for loans made by the bank to the first-time entrepreneurs. The interest on the deposited funds was split to provide a loan handling fee to the bank and to underwrite lower loan interest rates. To provide technical assistance, Wamy hired a local certified public accountant to provide a one-on-one working relationship with clients.

In two years, 28 businesses were started with loans averaging \$5,000. Enterprises started included janitorial services, contract spinach production for local restaurants, wooden toy construction, horticulture services, and a ruffle sewing business. Eighteen of the 28 ventures launched remain in operation. In addition to providing

employment for their owners, these businesses have created jobs for others.⁷

SMALL BUSINESS INCUBATORS

Initially started in Europe, numerous organizations across the country have established small business incubators to foster micro-enterprise development in their communities. Incubator buildings are facilities that house several fledgling businesses at any one time. Operating and overhead costs can be reduced as the enterprises share common facilities such as accounting, copying, mailing and answering services.

Incubators can help small businesses survive the precarious early stages of operation. Businesses that might ordinarily be overwhelmed by costs before revenues are secured, can often survive with some assistance during infancy. Many business incubators are designed to graduate businesses from the facility once stability in operation and cash flow are achieved.

GARNERING ADDITIONAL CAPITAL FOR MICRO-ENTERPRISE LENDING

There is great potential for expanding microenterprise activity among low-income persons in the United States. However, before this growth can be realized, additional sources of capital must be made available. Possibilities for financing exist with the development of a secondary market for small business loans, linked deposit programs by state and local entities, expanded "socially responsive" investment programs, community loan funds, and credit unions.

Credit Unions

Credit unions have existed in the United States since the early part of this century. Today, there are over 15,000 credit unions which offer financial services to nearly 50 million members. The great majority of these credit unions are organized around the common bond of employment, profession, or group association such as church affiliation and residence. However, there are a growing number of credit unions being organized around the common bond of need, particularly in low-income communities. Because credit union policies and services are generally tailored to meet the special needs of their members, these institutions may be the ideal vehicle for low-income persons to acquire capital for micro-enterprise ventures.

Particularly advantageous for the low-income individual considering micro-entrepreneurship is the existence of community development credit unions (CDCU's). Today there are nearly 400 CDCU's in the United States, which serve approximately 350,000 low-income members. These institutions are characterized by high proportions of public assistance recipients, unemployed persons, social security recipients, and racial and ethnic minorities. The combined assets of CDCU's are estimated to total about \$350 million. According to 1984 data prepared by the National Federation of Community Development Credit Unions (NFCDCU), these establishments

⁷ Corporation for Enterprise Development. "A Hand-Up, Not a Handout: An Introduction to Transfer Payment Investment Policy and Practice." Washington, DC, January 1987, p. 28.

have achieved an impressive loan-to-share ratio of 82 percent, compared to 62 percent for all federally chartered credit unions.

A majority of CDCU's have individual assets of less than \$500,000 and are still struggling to achieve stability. Nevertheless, according to a 1986 NFCDU study presented to the White House Office of Policy Development, CDCU's were praised for their surprisingly successful loan portfolio management even though they were serving a high-risk population.

Federal support for the operation of CDCU's was fortified with the 1979 establishment of the Community Development Credit Union Revolving Fund. The six million dollar fund provides loans of up to \$200,000 at subsidized rates to support the activities of qualified CDCU's.

Credit unions have historically eschewed commercial lending in favor of more traditional consumer lending activities. According to data presented in a 1986 report prepared by the National Credit Union Association, less than one percent of the loans made by federally insured credit unions went to commercial borrowers. These institutions, especially smaller ones and CDCU's, generally lack the expertise and experience necessary for such lending. However, responding to the interests and needs of their members, a number of these institutions are easing into the commercial lending business and thus are poised to be a more important source of capital for micro-enterprises.

Linked Deposit Programs

State and local governments have the ability to leverage micro-enterprise lending by investing surplus and operating funds in financial institutions that lend to small borrowers. Decisions on where public entities invest their funds are often based on such factors as services provided and rates of return.

In Ohio, state funds are used to leverage capital for lending to small businesses. Ohio's Linked Deposit Program uses state funds to purchase certificates of deposit on the condition that the financial institution use the funds for loans to qualified small businesses. In 1984, the first year of operation, state funds accounted for more than \$100 million of the moneys invested in the program.

"Socially Responsive" Investment

Socially responsive investment, synonymous with alternative investment, ethical investment, and program-related investment, is the practice of investing funds in activities that accomplish some socially valued objective. This can include investing in industries or organizations that promote such broad objectives as solar energy, pollution control, women's rights, organic food production, minority housing, or small business expansion in disadvantaged areas.

Proponents of the micro-enterprise concept have noted that if entities such as individual investors, corporations, religious organizations, insurance companies, pension funds, trust funds, mutual funds, and labor unions invested a small portion of their pool of investable funds, these investments would greatly strengthen the loan base for micro-enterprise ventures.

Community Loan Funds

Community loan funds are locally based, primarily nonprofit organizations that borrow capital from investors and relend it on affordable terms to benefit communities and individuals denied sufficient access to traditional capital markets. They typically lend to community organizations that develop housing, employment and other services or goods for low-income persons. The funds operate on sound business principles, seeking viable projects, establish loan-loss reserves, and typically require collateral from borrowers.

These loan funds receive most of their financial support investment loans from individuals, religious organizations, charitable organizations and corporations. The ability to attract such monies lowers their cost of funds and enables them to lend to community projects on easier terms, often at only two or three percentage points above cost. Moreover, since most of the funds are nonprofit and operate with low overhead and low transaction costs, they can afford to keep rate spreads narrow. The average spreads for commercial banks with assets under \$10 billion, for example, is five percentage points.⁸

Besides providing low-cost capital, many of the funds provide technical assistance to their borrowers. Considering themselves more as development partners with community organizations than as conventional lenders, loan funds often provide operational guidance to improve their capacity and financial advice so they can attract private financing. Community loan funds try to usher borrowers into the mainstream of conventional financing by providing first-time financing or bridge financing as part of a joint effort to leverage additional capital from private sources.

Several of the funds, including the largest, the Massachusetts-based Institute of Community Economics, help smaller loan funds to start-up or increase activities by providing them with seed or additional capital and technical assistance. Community loan funds around the country have recently formed a national association, the National Association of Community Loan Funds, to assist members and promote the role of such funds in community development efforts.

Although most community loan funds have concentrated their efforts on assisting community organizations involved in supplying low-income housing, several have assisted small businesses with start-up and expansion loans.

The Shorebank Holding Company

In Chicago: The Shorebank Corporation, located in Chicago's South Shore community, is a bank holding company that has been described by many as a national model for community development. Shorebank has the dual goal of initiating a permanent community renewal process, and making a profit. Shorebank is a hybrid, combining as subsidiaries under one corporate umbrella the activities of a commercial bank, a real estate development corporation, a minority enterprise small business investment corporation, and a nonprofit community economic development corporation.

⁸ "A New Lender of Last resort." The New York Times. Dec. 1, 1985, sec. F, p. 9.

Shorebank is organized as a holding company because the other subsidiaries are involved in development activities which a bank cannot legally undertake.

The chairman of Shorebank Corporation, developed a plan for reversing the deterioration of the community by reinvesting in neighborhood housing. Whereas previous management had invested the majority of depositor's funds outside of the community, South Shore Bank began reinvesting funds into the community by providing single-family mortgages and rehabilitation loans for multifamily housing units, if owner occupied. Lending to the previously neglected low- and moderate-income residents of the community helped unleash neighborhood initiatives and additional investment that turned the local real estate market around. Today, real estate is once again considered a safe investment in the community. South Shore Bank has experienced an almost unprecedented 98 percent repayment rate on its loans.

Working with South Shore Bank in community development is an affiliate, the Neighborhood Fund, a minority enterprise small business investment corporation that provides venture capital to growing minority-owned companies.

In Arkansas: Based on the Shorebank holding company structure, a new enterprise, Southern Development Bancorporation (SDB) has launched a project to help small businessmen, farmers, and others in rural Arkansas. Like Shorebank, SDB will purchase a bank and establish both for profit and nonprofit affiliates. However, SDB will concentrate more on developing small businesses and spurring employment opportunities rather than housing in their economic development efforts.

Among SDB's subsidiaries will be the Good Faith Fund, a seed capital fund which will provide short-term loans to local residents interested in self-employment. It will extend small amounts of secured and unsecured business loans using peer group support techniques.

Secondary Market

Since many financial institutions are becoming asset managers and are increasingly interested in extending loans that can be sold, a secondary market for small business loans may be necessary to ensure the attractiveness of commercial lending in today's competitive financial environment.

Government-sponsored secondary markets provide the means by which additional capital can be channeled to objectives valued by society—low-income housing and student loans. However, unlike housing and student loans, no comparable secondary market exists to attract further capital for small business lending. The establishment of a secondary market, administered, for example, by such an entity as the Small Business Administration, would improve the investability of micro-entrepreneurs by improving the liquidity of such lending and reducing the risk faced by financial institutions. This entity could purchase individual micro-enterprise loans from lenders, package an attractive security backed by a pool of these loans, and sell them to investors.

Lenders would be able to recycle their small loans and attract more capital for micro-enterprise lending—for every one million

dollars of small business loans in the secondary market, and additional one million dollars in capital could be made available for micro-enterprise lending.

Private Secondary Market

A privately-sponsored secondary market, similiar to the recently initiated Local Initiatives Managed Assets Corporation (LIMAC) could be established for small business loans.

LIMAC is a novel development tool sponsored by the Local Initiatives Support Council that will function as a loan pool; purchasing loans made for housing and development to low-income community-based organizations from lenders, and packaging loans for sale in the capital markets. To improve their marketability, LIMAC's securities will additionally be guaranteed by private entities. Both the MacArthur and Ford Foundations partially guarantee investors against major losses.

A similiar private mechanism could be set up for micro-enterprise loans. Private corporations, foundations, pension funds non-profits et cetera, could pledge funds and guarantee such offerings. Additionally, if the underlying micro-enterprise loans are structured soundly, the guarantee can be provided with little or no actual outlay.

The Community Reinvestment Act

Consumer advocacy groups and community organizations concerned with the practice of redlining—the conscious or subconscious practice of limiting lending activities in certain neighborhoods and communities by financial institutions—have long-argued that lenders have an affirmative obligation to reinvest significant portions of their assests in areas from which they receive deposits. The Federal Government has responded with reinvestment standards defined by the Community Reinvestment Act of 1977 (CRA) and the Home Mortgage Disclosure Act of 1975 (HMDA). A number of states and localities have also enacted reinvestment policies.

These statutes were promulgated to deter potentially discriminatory lending practices of federally regulated financial institutions. HMDA requires banks to disclose where they make home loans. CRA requires Federal regulating agencies—the Federal Reserve, the Comptroller of the Currency, the Federal Deposit Insurance Company, and the Federal Home Loan Bank Board—to assess how well financial institutions are meeting the local credit needs of the communities they serve. These evaluations are made prior to approving applications for Federal charters, Federal deposit insurance, establishment of domestic branches or relocation of home or branch offices by regulated financial institutions, mergers, consolidations, and acquisitions.

Rather than explicitly requiring that a specific percentage of a financial institution's, assets be invested in any particular community, these statutes merely mandate disclosure of lending practices. Consequently, a number of community organizations have argued that more stringent federal requirements for community reinvestment are warranted.

Nevertheless, primarily by default, low-income communities have been able to leverage additional capital through CRA require-

ments. The deregulation of the banking industry that has occurred over the past several years has opened new investment opportunities for financial institutions. Part of the response to these opportunities has been a tremendous wave of takeovers and mergers along with a rash of branch bank openings and closings. Armed with CRA and HMDA requirements, community organizations have found that they can delay banks' expansion plans and bring them to the negotiating table by challenging their applications before federal regulators.⁹ Though there have been very few deposit applications denied on CRA grounds, the mere threat of a delay has moved some financial institutions to negotiate with community organizations.

In Chicago, a coalition of community groups was able to gain a commitment of \$173 million in low-interest housing and commercial loans for the city's poor neighborhoods by challenging the expansion and merger plans of one of the city's larger banks. A study by the Hubert H. Humphrey Institute of Public Affairs at the University of Minnesota found that over \$3.7 billion has been made available in hundreds of low-income urban communities as a result of negotiations between community groups and financial institutions.¹⁰

USE OF PUBLIC TRANSFERS AS INVESTMENT CAPITAL

Millions of Americans receive payments amounting to billions of dollars per year from the various income security programs administered by the federal, state, and local governments. The common objective of these public transfers is to ensure a minimum standard of living for individuals with incomes at or close to the federally designated poverty level. Public transfer payment programs in the United States fall into two categories: social insurance transfers, under which benefits are earned by prior contribution and paid in the event of retirement, disability, or job loss; (that is, Social Security and unemployment insurance); and, means-tested transfers, which are provided to persons who must meet categorical eligibility rules; (that is, food stamps, Medicaid, and Aid to Families with Dependent Children (AFDC), as well as supplemental state general assistance programs).¹¹

Although various attempts have been made to encourage self-sufficiency among able-bodied recipients of this assistance, little consideration has been given to the use of certain transfer payments to promote self-employment and micro-enterprises.

The concept, though speculative in nature, has met with promising success in Europe. Since 1979, under France's Chomeurs Createurs d'Entreprises Program (Unemployed Entrepreneur), French citizens entitled to unemployment or supplementary (income maintenance) benefits, have been able to collect a lump sum payment of up to \$6,500 instead of their monthly benefits, to start a business.¹²

Recent evaluations of the 24,606 businesses started during 1981 and 1982, found that on the average, one job in addition to the

⁹ Ford Foundation. "Reinvesting in the Community." Letter, December 1986, p. 6.

¹⁰ Ibid.

¹¹ Gould, Sara K. and Jing Lyman. "A Working Guide To Women's Self-Employment." Corporation for Enterprise Development. Washington, DC February 1987, pp. 14-15.

¹² Ibid, p. 16.

owner's job was created. Approximately 30 percent of program participants were able to leverage their lump-sum payments with a bank loan. Between 60 and 80 percent of the businesses survived at least one year or more than one-half of those participants who closed their businesses were able to find a new job or start a second business. Over 175,000 people have now participated in the program.¹³

Great Britain's Enterprise Allowance Scheme (EAS), initiated in five pilot areas in 1982, and launched nationally after widespread success in 1983, is available to individuals who have been unemployed for at least eight weeks and who are eligible to receive unemployment or supplementary benefits. Instead of their regular benefits, participants receive approximately \$65 weekly for one year while they attempt a business start-up. Data from an 18-month survey of the nationwide program indicate that 76 percent of businesses which completed 12 months on the scheme were still operating. For every 100 surviving businesses, 91 additional new jobs have been generated. Of these positions, 37 are full-time and 54 are part-time. Later surveys showed a survival rate of 52 percent after three years, with somewhat better job creation rates. Approximately 200,000 individuals entered the program from 1982 through 1986, and at least 100,000 more are projected to participate in 1987.¹⁴

The British and French programs both operate under the premise that many of the entrepreneurially inclined unemployed would try self-employment if not threatened with the loss of government support. The inherent risk of self-employment becomes too prohibitive if security maintenance benefits are threatened. The approach has induced many unemployed people to readily accept opportunities to seek self-sufficiency through self-employment. Additionally, since the grants to unemployed entrepreneurs are drawn from funds that would be received anyway, the programs impose marginal additional costs on the government.

Under-capitalization is a frequent cause of many business failures. Clearly, transfer payments alone, are insufficient to capitalize many businesses.¹⁵ Nevertheless, the capital needed to launch many micro-enterprise ventures can be satisfied by even a small guaranteed stream of income or a lump-sum payment. The British guarantee of continued payments for a period of time, as a form of working capital, improves the recipients cash-flow position and hence his/her investability. Integrating such programs with the private sector can further diffuse the under-capitalization concerns.

Based on the accomplishments of the French and British programs, similar approaches have been initiated in Ireland, Canada, Denmark, Belgium, Australia, Spain, Sweden, and The Netherlands.

Several bills promoting the establishment of demonstration projects giving recipients of unemployment insurance the option of using their assistance for seed capital in small business ventures,

¹³ Ibid.

¹⁴ Ibid.

¹⁵ Corporation For Enterprise Development. "How to Turn a Handout into a Hand-Up: Strategies for Implementing Transfer Payment Investment." Washington, DC, February 1987, p. 39.

have been introduced in the Congress. The Budget Reconciliation bill of 1987 included authorization for the use of the \$30 billion unemployment insurance trust fund to help jobless workers start small businesses. Additionally, the Corporation for Enterprise Development has initiated a four-year demonstration project with several states through which pilot programs will provide entrepreneurial training, personal effectiveness training, and access to business credit for welfare recipients.

Self-employment is probably a viable option for only a small percentage of transfer payment recipients (perhaps about two percent in Europe), yet this represents hundreds of thousands of people.¹⁶ A fair percentage will fall as is common among all businesses. A portion of the enterprises will succeed marginally and produce income inadequate to completely sever dependence on welfare.

However, there is the potential for a good number of success stories. Using income transfers as capital for individual enterprise may be the opportunity so sorely lacking for the poor. The work ethic only functions if the rewards for labor are real and legitimate.

Committee Recommendations

MICRO-ENTERPRISE CREDIT PROGRAMS IN THE UNITED STATES

Based on research, meetings, and hearings, the committee recommends:

1. The Small Business Administration (SBA) should work more closely with community development credit unions (CDCU's) by involving them more in their guaranteed loan programs. Because CDCU's are nonprofits and specialize in making small loans, they may be better positioned than most financial institutions to make commercial loans below the \$50,000 threshold.

2. The SBA should work with community organizations directly involved in micro-enterprise development in order to better reach the smallest of the small borrowers. SBA guarantees (whole, partial, or secondary/contingency) could help capital-strapped organizations leverage capital from the private sector. SBA could also lend directly to community organizations which would then administer and relend the monies to micro-entrepreneurs. These community organizations, with their experience and capacity to improve the bankability of micro-entrepreneurs, should be able to manage such lending quite efficiently.

3. Congress should continue its support of the six million dollar community development credit union revolving loan fund administered by the National Credit Union Administration, and consider expanding funds' capital base including language that encourages efforts to reach micro-entrepreneurs.

4. The SBA should study the feasibility of establishing a secondary market for small business loans.

5. Federal, state, and local governments should consider the establishment of linked deposit programs similar to Ohio's in order

¹⁶ Ibid., p. 40.

to maximize the leveraging capabilities of public monies deposited in private financial institutions.

6. In economically depressed communities, public, private and nonprofit sectors should include programs that encourage micro-enterprise in strategies for economic revitalization.

7. Traditional financial institutions should establish programs that encourage micro-enterprise development as another means of reinvesting deposits back into low- and moderate-income communities. Such investing will, in addition to improving an institution's reinvestment record, groom future commercial borrowers for the institution's conventional lending window.

8. Investors should increase the availability of micro-enterprise credit by investing directly in programs that sponsor micro-enterprises, either establishing a private secondary market for small business loans or by purchasing securities backed by small business loans, and investing monies in community development credit unions as nonmember deposits to encourage lending activities.

9. Congress should further investigate the concept of allowing transfer payment monies to be used as seed or working capital to encourage micro-enterprise development.



MINORITY STAFF VIEWS

While the Minority supports the concept of micro-enterprise lending, and has played a major role in promoting legislation that facilitates micro-enterprise programs, this staff report should be regarded as only a preliminary examination of a very complex issue. This is particularly true of the section dealing with the application of micro-enterprise credit in the domestic U.S. economy, which has not been examined by the committee. The sections entitled "Committee Recommendations" on pages 16 and 34 should actually be regarded as suggestions for further study.

Micro-enterprise lending programs have the potential for promoting free-market economic policies in developing countries and depressed regions of the United States. We endorse this aspect of micro-enterprise credit.

The Minority believes, however, that more careful consideration should be given to the way in which micro-enterprise lending programs are managed and the effect this could have on the credit ratings of financial institutions. We are concerned that this report creates the impression that financial institutions are unfairly placing some individuals or firms in a high-risk category; in fact, there may be very good and valid reasons for such determinations. Before the committee makes recommendations on this issue, formal hearings should be held. It is especially important that the committee coordinate its study with the Committee on Banking, Finance and Urban Affairs, which has legislative jurisdiction over this issue.

The Minority is particularly concerned about the part in the domestic section entitled "'Socially Responsive' Investment." In a free-market economy, the sum total of individual transactions determines the value that society as a whole places on goods or services. This section gives the strong, and misguided, impression that some higher authority can determine what investments are "socially responsive."

Finally, the Minority objects in the strongest possible terms to the use of staff reports as a circumvention of committee rules that require approval of reports by the Members of the committee. Instead of issuing a staff report, the Majority should have taken the time to get the approval of the committee itself.



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APPENDIX

CREDIT CASE STUDIES

The following case studies illustrate the effectiveness of credit assistance to micro-entrepreneurs as well as different mechanisms for the delivery and recovery of credit assistance to this sector:

Grameen (Rural) Bank in Bangladesh

Background

The Grameen Bank was started as an "action research project" in 1976 by Dr. Muhammad Yunus, Economics Professor at Chittagong University in Bangladesh. The project was to determine whether financial resources made available to the poor on reasonable terms and conditions could generate productive self-employment without external assistance. The first bank opened in 1979 with financial support from the Bangladesh Bank. Encouraged by its initial success the project was expanded to other districts in Bangladesh with the assistance of the International Fund for Agricultural Development in April 1982. In September, 1983, the project was transformed into a specialized financial institution called the Grameen Bank. In 1984, the Grameen Bank had its first full year of operation independent of the national government bank. It began the year with 86 branches in 1,249 villages with loans to 58,000 borrowers. By the year end, the bank had 153 branches in 268 villages with loans to 121,051 borrowers. Currently the bank has 226 branches and operates in 3,600 villages assisting approximately 156,000 borrowers. Sixty-five percent of the borrowers are landless women. The average loan size is \$60; the largest loan is approximately \$200. The loan recovery record is near 99 percent.

The Grameen Bank is 25 percent owned by the government and 75 percent owned by the borrowers. The policy-making organ of the bank is the board of directors consisting of seven members including the chairman appointed by the government, four persons, preferably two women, elected by the borrower shareholders, and the managing director, who is the chief executive officer of the bank. Except for transactions in foreign exchange, the Grameen Bank is empowered to carry out the entire range of normal banking functions including surveys and research, investment counseling, technical and extension services to clients. The Grameen Bank, therefore, makes its own policy and has its own branches and staff. Plans are now underway for the government to sell its share of the Grameen Bank to the borrowers.

Operations of Grameen Bank

Borrowers are landless women and men and credit is given for the most part for nonagricultural activities. Borrowers must orga-

nize themselves into groups to receive loans for which no collateral is required. The Grameen Bank workers go into villages to transact banking operations. The branch is established in the community within easy reach of the potential target population. The bank workers go into the villages to talk about the Grameen Bank and promote the formation of groups of five like-minded persons with similar economic backgrounds. Before loans are given to eligible borrowers, they must complete an extensive training program (one to two weeks) where they learn the operations and procedures of the Grameen Bank. Each group elects its members, a chairman and secretary. The group must then pass a "test" before they are granted loans. During this "test", the members must satisfy the Grameen Bank staff of their integrity and seriousness, understanding of the principles and procedures of the bank, and their ability to sign their names. Each member of the group must attend weekly meetings and save one taka (U.S. \$0.08) every week as part of the group savings.

Several groups in the same area are federated into a "centre" and must elect a centre chief and deputy centre chief. They conduct weekly meetings of the centre, recommend loan proposals and supervise loan activities. Loan requests are first formulated and considered within the group. They are then reviewed and approved by the centre chief, the Grameen Bank worker, the programme officer, the branch and the zone manager. Initially, two members in the group are given loans and upon successful compliance with the regulations, additional group members become eligible for loans. The loans are repaid over a year in 50 weekly installments of equal amounts. Interest is 16 percent and is repaid in the last two weeks of the year.

In addition to weekly meetings, weekly installment payments and weekly personal savings of one taka per person, each borrower is required to pay a group tax of five percent of the loan received. The weekly savings and the group tax constitute the "group funds." Individual members can borrow from the group fund for consumption and investment purposes with the consent of the group members. Additionally, group members are required to contribute to an "emergency fund" consisting of a quarter of the total amount of interest charged by the Grameen Bank on its loans. The use of these funds is for the development of health, life, and asset insurance for group members.

Loan Activities

For female borrowers, the two major loan activities are livestock and fisheries, and processing and manufacturing which combine to account for 80 to 90 percent of all loan disbursement over the period from 1980-83. Within this total, the share of livestock and fisheries has declined from 61 to 43 percent, and processing and manufacturing has risen from 30 to 40 percent. The share of trading and shopkeeping rose significantly over the 1980-83 period from 8 to 16 percent. For male borrowers, trading and shopping is the most important sector, rising from 45 to 50 percent from 1980-83. Next in order of importance are processing and manufacturing, livestock and fisheries, and transport services. See appendix charts, 1, 2, and 3.

The majority of loan activities are organized on an individual and family basis. Loans for collective or joint activities were intro-

duce in 1982 and in 1983. Collective loans during the 1982-83 time period accounted for 2.7 percent of the total loan disbursement. Joint enterprises comprise a range of activities such as cultivation, market leasing, rice milling, fish ponds, handloom weaving, and power pumps. Most of these joint enterprises are run by men's groups, the only exception being rice milling, for which loans are given exclusively to women's groups.

Loans for the financing of economic activities of landless women and men constitute the core of the Grameen Bank. The bank, however, has gradually introduced a range of subsidiary activities including improvements in personal hygiene and sanitation, health care, nutrition, family planning, literacy and children's education, encouragement of social reforms, planting of trees, and cultivation of fruits and vegetables.

Economic Impact

The investments made by Grameen Bank borrowers have been extremely productive and have contributed to significant improvements in household output, income and consumption. Three separate surveys of Grameen Bank borrowers concluded that the loans contributed to significant increases in income levels (see chart 4). Activities yielding relatively high income increases include home-made food making, paddy husking, rice and wheat selling, colai crushing, sweet making, and bamboo work. Activities with the highest return on capital and labor investment have been: weaving, cottage industry products, trading, peddling, crop trading, and pottery.

The significant increase in income are further documented by the excellent repayment record of near 99 percent. Not only have borrowers repaid the principle, but the interest payments and a variety of additional deductions (group fund, emergency fund) amount to a minimum of 25 percent of the loan. Unless the loans were highly productive in generating additional income, taking into account the very low income-level of Grameen Bank borrowers and lack of assets of the borrowers, such a high repayment record would not have been possible.

CHART 3.—TYPES OF LOANS MADE, 1980, 1981, 1982, AND 1983

[Loan amounts disbursed in thousands TK]

	1980		1981		1982		1983	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Loan purpose: ¹								
Agriculture/forestry.....	346	(3)	427	(1)	797	(2)	1,382	(1.5)
Livestock/fisheries.....	5,039	(25)	7,678	(23)	9,667	(23)	25,850	(2.9)
Processing/manufacturing.....	4,109	(20)	8,781	(27)	10,283	(24)	25,936	(26.0)
Trading/shopkeeping.....	7,477	(37)	14,297	(42)	17,963	(44)	37,638	(37.7)
Transport services.....	3,176	(15)	2,345	(7)	2,175	(5)	5,830	(5.9)
Joint enterprises.....	(—)		(—)		989	(2)	2,612	(2.7)
Total.....	20,147	(100)	33,528	(100)	41,077	(100)	99,248	(100)
Average size of loan.....	1,730		1,545		1,699			

¹ All loans were made to private individuals to finance individual activities with the exception of loans classified as "Joint Enterprise" which were group loans and amounted to only 2 percent of the total loans made.

Source: Grameen Bank Annual Reports, 1980, 1981, 1982, 1983.

CHART 4.—DISBURSEMENT OF LOANS BY SECTORS

[Figures in thousands TK]

	Male loanees				Female loanees			
	1980	1981	1982	1983	1980	1981	1982	1983
Agriculture and forestry	293 (1.8)	391 (1.7)	508 (2.1)	1,033 (1.6)	53 (1.3)	36 (0.4)	189 (1.4)	349 (1.0)
Livestock and fisheries	2,589 (16.1)	2,831 (12.4)	3,792 (13.3)	10,552 (16.5)	2,450 (60.5)	4,847 (45.6)	5,875 (43.6)	14,298 (43.1)
Processing and manufacturing	2,878 (17.9)	4,379 (19.1)	5,032 (17.7)	12,034 (18.8)	1,231 (30.4)	4,402 (41.4)	5,251 (39.0)	14,003 (39.5)
Trading and shopkeeping	7,160 (44.5)	12,961 (56.6)	15,890 (55.9)	31,941 (49.8)	317 (7.8)	1,336 (12.6)	2,073 (15.4)	5,595 (15.8)
Transport services	3,176 (19.7)	2,345 (10.2)	2,175 (7.6)	5,785 (9.0)				45 (0.1)
Collective enterprises			918 (0.3)	2,543 (4.0)			71 (0.06)	69 (0.2)
Total amount	16,096 (100.0)	22,906 (100.0)	28,443 (100.0)	63,887 (100.0)	4,050 (100.0)	10,621 (100.0)	13,460 (100.0)	35,359 (100.0)

Source: GBP, Annual Reports, 1980, 1981, 1982.

CHART 5.—DISBURSEMENT OF LOANS BY MAJOR ACTIVITIES AND SEX

[Figures in percent of total loans disbursed]

Activity	1980-81	1982
Male Loanee:		
Paddy and rice trading	8.0	10.0
Bull and cow fattening	4.9	6.2
Grocery and stationery shops	5.8	6.1
Milch cow raising	8.4	6.0
Seasonal crops trading	2.4	5.1
Cattle and goat trading	4.7	4.8
Paddy and pulse husking	4.7	3.9
Cart transport	3.6	3.5
Richshaw transport	9.6	3.4
Handloom weaving	2.6	3.3
Handloom products trading	4.1	3.3
Wood and timber trading	1.9	2.2
Cloth trading	1.6	2.0
Mustard seed trading	1.9	1.9
Peddling	2.0	1.8
Paddy cultivation	.8	1.8
Gur trading	1.9	1.8
Fish trading	1.4	1.5
Vegetables trading	1.8	1.5
Flour trading	1.6	1.6
Bottle leaf and nut trading	1.2	1.3
Oil pressing	2.0	1.3
Other major cottage industries	5.0	5.4
Total	81.9	79.7
Female Loanees:		
Milch cow raising	36.7	30.1
Paddy and pulse husking	24.9	25.2
Bull and cow fattening	11.3	11.9
Stationery and grocery shops	3.2	5.0
Paddy and rice trading	1.9	3.3
Handloom weaving	1.4	2.4
Cane and bamboo works	1.6	2.1

CHART 5.—DISBURSEMENT OF LOANS BY MAJOR ACTIVITIES AND SEX—Continued

(Figures in percent of total loans disbursed)

Activity	1980-81	1982
Flour trading.....	1.4	2.1
Rice products making.....	1.2	1.9
Peddling.....	1.0	1.4
Tailoring.....	1.9	1.3
Mat making.....	1.3	1.3
Fish net making.....	1.5	1.1
Oil pressing.....	1.7	1.0
Goat and poultry raising.....	1.3	1.4
Total.....	92.3	91.5

CHART 6.—SUMMARY OF THREE SURVEY RESULTS ON IMPACT ON INCOMES

Survey sponsored by—	Sample	Period	Income before loan (TK)	Income after loan	Percent increase
1. Bangladesh Institute of Bank Management (BIBM).	50 Women in Silimpur, Tangail.	1980-81	428 (monthly) per family.....		+ 73
2. Bangladesh Bank (BB).....	175 members, 90 men and 85 women, drawn from 5 branches in Tangail and 4 branches in Chittagong.	1981-82	5,806 per annum per family ...	9,166	+ 58
3. Bangladesh Institute of Development Studies (BIDS).	600 randomly selected members.	1980-81	1,037 per capita per annum (before 1980).	1,740 (1982)	+ 68

Sources: The title of the studies are cited in the text.

The Program for Development of Micro-Enterprises (PRODEME) of the Dominican Development Foundation in Santo Domingo, Dominican Republic

Background

The Dominican Development Foundation (DDF) is a private voluntary organization founded in 1965 which operates in rural areas of the Dominican Republic. The Dominican Development Foundation became interested in an urban micro-enterprise project in 1980 and began the Program for the Development of Micro-Enterprises (PRODEME) in 1981. Funding assistance was provided from the Agency for International Development, the Inter-American Foundation, Appropriate Technology International, and local contributions in the Dominican Republic. PRODEME includes two components: a "solidarity group" component consisting of small groups of five to eight members who mutually guarantee a loan made to the group for individual purposes; and, a "micro-enterprise" component consisting of loans to individual enterprises. Through December 1983, 343 loans were made to solidarity groups consisting of approximately 2,000 members. The average loan being \$233 per member. Additionally, 211 loans averaging \$1,817 have been disbursed to individual businesses in the micro-enterprise component of the project.

The income-generating activities of the solidarity group members are much smaller than those of the micro-enterprise group. Eighty-three percent of the borrowers in the solidarity groups are tricycle cart vendors (tricicleros) and the other 17 percent are seamstresses and food vendors. The enterprises of the micro-enterprise component usually consist of two full-time employees and have a capital investment close to \$4,000.

For the purpose of this report, the case study will concentrate on the solidarity group component of PRODEME.

Operations of the Solidarity Group

The tricycle cart vendors of the project receive \$249 toward the purchase of a "triciclo"—which they previously rented—plus \$21 for working capital. The loan is to be repaid in 52 weekly payments. The working capital group, the seamstresses and food vendors, receive up to \$249 to be used as working capital, and must be repaid in 52 weekly installments. A flat interest rate of 24 percent per annum is charged.

All the tricicleros are male and on the average are 30 years old. In contrast, three-quarters of the working capital group are female and on average, about 10 years older than the tricicleros.

The solidarity group emphasizes participation, and the group members are encouraged to take an active role in the project. Group members already in the project are responsible for recruiting new members, who organize themselves into provisional groups. Newly formed groups must attend a training course on the project. By the end of the group course, members must elect a group president. Before the group can obtain credit, it must participate in barrio-level meetings of one to two months, further testing group cohesion and commitment to the project. Group membership reinforces the individual's sense of responsibility for loan payback, as each group member cosigns for the debt of the other members.

When asked if they would prefer a group loan to an individual loan, on average six out of ten PRODEME group members said they would prefer group loans. Seventy-four percent said they would take out a second loan with the same group, 24 percent said they would take out another loan with some of the members of their group, and only two percent said they would prefer to take out another loan with another group.

One of the most significant impacts of the solidarity group program has been the formation of an association of tricicleros, known as the "Dominican Association of Tricicleros 'San Jose Obrero.'" Members of the association have created a voluntary emergency fund to be used in the event of sickness or death by association members' families. The association is in the process of establishing a savings account and a cooperative loan program.

Economic Impact

The street economy in the Dominican Republic has suffered as a result of a severe recession in the Dominican economy. When asked if the current economic conditions made it difficult to increase earnings, 88 percent of the tricicleros and 73 percent of the working capital group responded in the affirmative. However, through the ownership of the triciclero, tricicleros will save \$388 a year in

rental fees, representing a 16-percent increase in annual income. Increases in the income of the working capital group has not been documented. By December 1983, the loan repayment rate had been estimated at 78 percent.

The Small Business Scheme of the National Christian Council of Kenya

Background

The National Christian Council of Kenya (NCCCK), recently renamed the National Council of Churches of Kenya, is currently carrying out the first income-generation project developed under the Program for Investment in the Small Capital Enterprise Sector (PISCES) in Africa. Its Small Business Scheme (SBS) was established by NCCCK in 1975. The program was designed to provide management and financial assistance to small-scale enterprises in the urban informal sector of Nairobi, Kenya. The Small Business Scheme set out to reach both groups and individual micro-entrepreneurs principally concerned with their own survival and that of their dependents. Combined lending in 1977 and 1978 amounted to 20 loans totaling \$8,599. In response to increased demand, NCCCK received additional funding from AID to upgrade the program and expand it to cover the Nairobi, Mombasa, Kisumu/Kakamega, and Nakuru/Eldoret areas. Additionally the revolving loan fund was expanded to a total of \$110,000. The key to the expansion of the program was the ongoing integration of the entrepreneurship component with NCCCK's Urban Community Improvement Program.

Operations of the Small Business Scheme

To ensure the project retained its social focus and served the level of clientele traditionally reached by NCCCK, all potential borrowers must be interviewed by the social workers in each community. The interview with the social worker is designed to determine whether the client is committed to the project and their level of entrepreneurship.

Fixed collateral requirements are waived for all applicants to ensure the most poor are the beneficiaries. Three third-party co-signers are required of individual applicants. Groups may collectively guarantee repayment. Consistent with the enterprises assisted, most of NCCCK's lending has been for working capital.

Nonfinancial assistance has been concentrated in three areas: use of credit/education; procurement and stock control; and, book-keeping. Licensing, marketing, and production-related assistance have been steadily diminished as the need for such assistance has declined.

The typical borrower of the Small Business Scheme is female, between 30 and 50 years of age, possessing little or no education, and living in an urban slum area with anywhere from five to 14 dependents. An estimated 75 percent of the SBS individual borrowers are women with small-scale retailing the most predominant loan activity. Additionally, 90 percent of the SBS group loans are to women for small-scale retailing. By mid-1984, the Small Business Scheme reached over 350 people with financing to 16 groups. An estimated 368 individual borrowers were also assisted by the

project. Greater emphasis on group lending has become a concentration of the Small Business Scheme in order to reach larger numbers of the very poor.

Economic Impact

The Small Business Scheme has helped its borrowers generate income and create a number of new job opportunities. Initial income gains have been significant; however, monthly profit levels have tended to decline somewhat, as business capital is diverted to household use. Steady work and an improved income have had a positive impact on the welfare of families. Living standards in almost all cases have risen. With increased income, more money is available for household consumption. The NCKK social workers have noted marked improvements in health and nutritional levels.

Borrowers are also becoming more financially self-reliant as demonstrated by the almost universal ability of borrowers to pay school fees and buy school clothes for their children. NCKK social workers have found that the SBS borrowers take their advice more seriously on such matters as health, nutrition, sanitation, child care, and family planning due to borrowers increased economic activity.

